May 28, 2004

FINANCIAL MANAGEMENT

DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches
(D-2004-085)

Department of Defense
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Acronyms

DTRA	Defense Threat Reduction Agency
DTSA	Defense Technology Security Administration
IG DoD	Inspector General of the Department of Defense
OMB	Office of Management and Budget
USD(C/CFO)	Under Secretary of Defense (Comptroller)/Chief Financial Officer

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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May 28, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR POLICY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, DEFENSE TECHNOLOGY SECURITY ADMINISTRATION

SUBJECT: Report on DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches (Report No. D-2004-085)

We are providing this report for review and comment. We considered comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Deputy Under Secretary of Defense (Technology Security Policy and Counterproliferation) provide additional comments on recommendations 2.a.3. and 2.a.4. by July 27, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audls@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Evelyn R. Klemstine at (703) 604-9172 (DSN 664-9172) or to Mr. Michael T. Brant at (703) 604-9651 (DSN 664-9651). See Appendix F for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Shelton Young

Shelton R. Young
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Office of the Inspector General of the Department of Defense

Report No. D-2004-085 **May 28, 2004**
(Project No. D2004LG-0048)

DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches

Executive Summary

Who Should Read This Report and Why? Financial management professionals and individuals who manage reimbursable programs should read this report. This report discusses topics of significant congressional interest.

Background. This report is required by Public Law 108-136, "National Defense Authorization Act for Fiscal Year 2004," November 24, 2003. That law requires that we conduct a study of the costs related to national security controls on satellite exports that were incurred by DoD for FY 1999 through FY 2003 and provide a report to the Committees on Armed Services of the Senate and the House of Representatives. The report was to identify and assess the costs related to monitoring satellite launches in foreign countries and costs related to reviewing applications for space-related export licenses. For the costs of monitoring satellite launches, we were required to review the costs reimbursed by satellite exporters, including the extent to which indirect costs were included in such reimbursement. The Defense Threat Reduction Agency maintained accounting records for the Defense Technology Security Administration (DTSA) from FY 1999 through the beginning of FY 2003. We were unable to review FY 2003 costs because DTSA had not determined those costs in time for inclusion in this report. In a previous report issued by the Inspector General of the Department of Defense, Report No. D-2003-070, "DoD Involvement in Export Enforcement Activities," March 28, 2003, we reported that DTSA had established an effective satellite monitoring program.

The Space Directorate, DTSA, has two main functions. First, it is the policy and technology review office for space-related export licenses. Between March 1999 and September 2002, the Space Directorate reviewed 7,398 applications for export licenses. Second, it monitors space-related exports where the Department of State has identified a monitoring and compliance role for DTSA. As part of that function, the Space Directorate approves technology transfer control plans; reviews technical data; attends technical meetings; and monitors the shipment, preparation, launch, and possible debris recovery of satellites launched in foreign countries. From FY 1999 through FY 2002, the Space Directorate monitored 37 satellite launches. In addition, as of FY 2002, the Space Directorate began providing assistance to the Missile Defense Agency on a joint U.S.-Russia project.

Results. For FY 1999 through FY 2002, DTRA and the Space Directorate did not properly bill satellite exporters for monitoring services. The Space Directorate did not adequately adjust estimates to reflect actual costs or allocate indirect costs between all of its services. The costs recorded by the Defense Threat Reduction Agency for the Space Directorate and the costs recorded by the Space Directorate did not always match the costs on supporting documentation. As a result, of the $14.2 million billed, the Space Directorate may have overcharged satellite exporters nearly $2.6 million. However, before a final amount can be determined, the Director, Defense Threat Reduction Agency and the Director, DTSA need to review the accuracy of their respective records, make any needed changes, and establish appropriate accounting controls. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. Comments from the Deputy Under Secretary of Defense (Technology Security Policy and Counterproliferation) were generally responsive. However, in response to the final report, we request that the Deputy Under Secretary address how costs associated with providing support to the Missile Defense Agency will be allocated and what procedures will be developed for allocating costs to all Space Directorate functions. We request that the Deputy Under Secretary provide comments to the final report by July 27, 2004. Comments from the Director, Defense Threat Reduction Agency were responsive. See the Finding section of the report for a discussion of the management comments and the Management Comments section for the complete text of the comments.

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This audit was performed to meet requirements of Public Law 108-136, "National Defense Authorization Act for Fiscal Year 2004," November 24, 2003, which states in section 1212:

"(a) Study.—The Inspector General of the Department of Defense shall conduct a study of the costs incurred by the Department of Defense for each fiscal year from fiscal year 1999 through fiscal year 2003 relating to national security controls on satellite exports. As part of such study, the Inspector General shall identify for each such fiscal year the amounts expended by the Department of Defense (1) for the monitoring of launches of satellites and related items in a foreign country pursuant to section 1514 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261; 22 U.S.C. 2778 note), and (2) in connection with applications for licenses for the export of satellites and related items (as that term is defined in section 1516 of that Act).

(b) Report.—Not later than April 1, 2004, the Inspector General shall submit to the Committees on Armed Services of the Senate and the House of Representatives a report on the study under subsection (a). That report shall include the following:

(1) An identification and assessment of the costs referred to in subsection (a), shown in the aggregate and separately, by fiscal year and by clauses (1) and (2) of that subsection.

(2) A review of the costs referred to in clause (1) of subsection (a), for which the Department of Defense has been reimbursed by the person or entity receiving the satellite launch monitoring services involved, including the extent to which indirect costs were included in such reimbursement."

Background

U.S. companies produce and sell space-related hardware and commercial satellites that are launched either in the United States or abroad. DoD monitors foreign launches that use U.S. technology because of the militarily sensitive technology. Following a 1988 Presidential decision to permit the launch of U.S. satellites on People's Republic of China (China) rockets, DoD assigned the responsibility for monitoring foreign launches to the Defense Technology Security Administration (DTSA). Following a congressional investigation into the release of U.S. technical information on advanced thermonuclear weapons, missiles, and space technology, Public Law 105-261, "Strom Thurmond National Defense Authorization Act for Fiscal Year 1999," October 17, 1998, and Public Law 106-65, "National Defense Authorization Act for Fiscal Year 2000," October 5, 1999, include requirements to strengthen export controls on satellite and missile technology.

Strengthening Export Controls. Congress strengthened export controls on satellite and missile technology in Public Laws 105-261 and 106-65. Public Law 105-261, section 1514(a)(2), requires the Secretary of Defense to monitor all aspects of licensed satellite export launches to ensure that there is no unauthorized transfer of technology. The monitoring is to cover technical discussions and activities; satellite processing and launch activities; and activities related to launch failures, delays, or cancellations. Public Law 105-261 also requires entities that receive monitoring services to fully reimburse DoD for the costs of those services.

Public Law 106-65, section 1404, requires DoD to prepare technology transfer control plans[1] with enhanced security arrangements for satellite launches. It also requires that launch security personnel report to launch monitors, receive training in the International Trafficking in Arms Regulations,[2] have significant satellite launch experience and expertise, and hold, at minimum, a security clearance level of secret. Public Law 106-65, section 1409, requires DoD to establish mechanisms for private industry to pay DoD for estimated monitoring costs before each fiscal year begins. If actual costs differ from the payments made to DoD, the law requires DoD to collect or refund the difference.

DoD Program Management. The Office of the Under Secretary of Defense for Policy develops, coordinates, and oversees implementation of policy for international technology transfers through the Deputy Under Secretary of Defense (Technology Security Policy and Counterproliferation). The Deputy Under Secretary supervises and directs DoD activities and develops DoD policy for export controls. The Deputy Under Secretary also is the Director, DTSA. The primary mission of DTSA is to develop and implement DoD policies on international transfers of defense-related goods, services, and technologies. In October 1998, DTSA functions were transferred to the Technology Security Directorate, Defense Threat Reduction Agency (DTRA). In August 2001, the Deputy Secretary of Defense announced the reestablishment of DTSA. When the reestablishment was implemented in 2003, the functions were transferred back to DTSA. DTRA maintained accounting records for DTSA from FY 1999 through the beginning of FY 2003.

The DTSA Space Directorate has two main functions. First, it is the policy and technology review office for space-related export licenses. According to the Chief, Space Directorate, the directorate reviews space-related portions of export licenses compiled by DTSA. According to Space Directorate records, between March 1999 and September 2002, it had reviewed 7,398 applications for export licenses related to spacecraft systems and associated equipment.[3] Second, the Space Directorate monitors space-related exports where the Department of State has identified a monitoring and compliance role for DTSA. That function includes preparing technology transfer control plans; reviewing technical data proposed for export; attending technical meetings between U.S. and foreign

[1] Technology transfer control plans outline the enforcement of export license provisions and may include instructions for debris recovery, transportation, security, and interactions between U.S. and foreign parties.

[2] The International Traffic in Arms Regulations implements the “Arms Export Control Act,” section 2778, title 22, United States Code. That regulation authorizes the President to control the export and import of defense articles and services.

[3] The International Traffic in Arms Regulations, part 121, provides for licenses for spacecraft systems and equipment including the spacecraft and associated hardware, ground support equipment, and technical data related to the manufacturing or production of those items.

parties; and monitoring the shipment, preparation, launch, and possible debris recovery of foreign satellite launches. In Inspector General of the Department of Defense (IG DoD) Report No. D-2003-070, “DoD Involvement in Export Enforcement Activities,” March 28, 2003, we reported that DTSA had an effective program for monitoring satellite launches in foreign nations.

Procedures Used to Bill Satellite Exporters. According to draft DTSA Operating Instruction SOP-02, “Technology Safeguard Monitoring for Foreign Launches of U.S. Commercial Satellites,” satellite exporters are to reimburse DoD for satellite launch monitoring expenses through a reimbursement procedure filed with the Space Directorate. “Procedures for Reimbursement of Costs for the DoD Space Launch Monitoring Program,” states that reimbursable costs include, but are not limited to, communications, contracted services, equipment, facilities, salaries, training, transportation, and travel. According to the procedure, companies advance their share of the estimated costs for the monitoring program at the beginning of each fiscal year. The Space Directorate adjusts assessments quarterly and at the end of each fiscal year. The year-end adjustment reconciles assessments against monitoring costs and advises each company of excess payments or additional assessments. Space Directorate officials explained that travel expenses are billed directly to the exporter for which the travel expenses were incurred, and after subtracting those travel expenses from total obligations,[4] the remaining obligations are allocated proportionately to the satellite exporters. The allocation to each exporter is based on the percentage of staff time used to monitor that company’s satellite exports.

Satellite Launches. From FY 1999 through FY 2002, DTSA monitored 37 satellite launches. U.S. companies, including Lockheed Martin Corporation; The Boeing Company; Loral Space and Communications, Limited; and Motorola, Incorporated, reimbursed $14.2 million to DoD for satellite launch monitoring services. Locations where DTSA monitored satellite launches included China, Kazakhstan, Russia, and from a ship in the Pacific Ocean.

Objectives

Our initial objective was to identify and assess costs incurred by, or allocated to, the Space Directorate, DTSA, related to national security controls on satellite exports for FY 1999 through FY 2003. Because the Space Directorate did not determine its costs for FY 2003 in time for inclusion in our review, we revised the period of review from FY 1999 through FY 2002. Specifically, we identified and assessed DoD costs for monitoring satellite launches in foreign countries and evaluated the extent to which indirect costs were included in the amounts reimbursed by entities receiving those services from DoD. We also identified and assessed the costs associated with reviewing applications for space-related export licenses. There were scope limitations that materially impacted the results of this review. See Appendix A for a discussion of the scope and methodology, scope limitations, and prior coverage.

[4] Office of Management and Budget Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” July 25, 2003, defines an obligation as a binding agreement that will result in immediate or future outlays.

Billing for Satellite Monitoring Costs

From FY 1999 through FY 2002, DTRA accounting records identified that the Space Directorate expended about $12.2 million for monitoring launches of satellites and related items, but DTRA and the Space Directorate did not properly bill satellite exporters for monitoring services. Specifically, DTRA and the Space Directorate did not adequately adjust billed estimates to reflect actual accrued expenditures and included indirect accrued expenditures that should have been charged to other activities, such as the review of applications for satellite export licenses. In addition, neither direct nor indirect accrued expenditures matched the costs on supporting documentation, and fringe benefit rates published by the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C/CFO]) were not used to bill satellite exporters. The improper billings occurred because the Space Directorate did not have adequate procedures for adjusting estimates, DoD made a policy decision to bill satellite exporters for the cost of reviewing space-related export licenses, and there were inadequate procedures for evaluating and reconciling accounting data. As a result, based on the limited information we obtained and reviewed, the Space Directorate may have overcharged satellite exporters nearly $2.6 million.

Reimbursement and Accounting Requirements

Public Law 105-261. Public Law 105-261, section 1514(a)(2)(A), states that when a license for the export of a satellite or related items for launch in a foreign country has been approved, the cost of monitoring services shall be fully reimbursed to DoD by the person or entity receiving such services.

Federal Regulation. Office of Management and Budget (OMB) Circular No. A-25, "User Charges," July 8, 1993, establishes Federal policy regarding fees assessed for Government services. The Circular covers activities that provide special benefits to recipients beyond those benefits provided to the general public. If the fee for an activity is covered by a statute or another circular, the statute or circular would take precedence. Circular No. A-25 requires agencies to recover all direct and indirect costs of providing special benefits. It states that full cost includes both funded and unfunded[5] retirement costs.

Federal Accounting Standards. The Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Standards," July 31, 1995, states that reporting entities should accumulate and report the costs of their activities. The Standard allows costs to be accumulated either through the use of cost accounting systems or cost finding techniques. It states that reporting entities should assign the full cost of resources that directly or indirectly contribute to products and services (outputs) through the most appropriate costing methods or

[5] Unfunded costs are costs not included in the performing activity's current appropriations or fund accounts.

cost finding techniques and should consistently follow those methods and techniques. The Standard also states that cost information serves as an important tool in reimbursements required under Office of Management Budget Circular No. A-25.

The Standard defines direct and indirect cost and provides examples. It defines direct costs as costs specifically identified with an output and includes salaries and employee benefits of those who work directly on the output; materials and supplies used for the output; costs associated with equipment, facilities, office space, and utilities that are used exclusively to produce the output; and costs from other segments or entities used to produce the output. It defines indirect costs as costs that are jointly or commonly used to produce two or more outputs that are not specifically identifiable with any of the outputs and include general administrative services, general research and technical support, operating and maintenance, rent, and security costs. The Standard also states that general management and administrative support costs that cannot be allocated, assigned, or traced to segments or their outputs should be reported on the entity's financial statements as costs not assigned to programs.

The Standard defines cost assignment as a process that ultimately identifies costs with outputs. It does not prescribe a cost assignment methodology but describes three methods of assigning costs to outputs—direct costing, cause-and-effect, and allocation. It explains that direct costing should be used for expenses that account for a substantial portion of the cost of an output. When costs are not directly traced to outputs, the Standard states that the preferred method of assigning costs to outputs is cause-and-effect. When using the cause-and-effect method, the Standard states that costs are assigned to activities or work elements that contribute to or support the production of outputs. When it is not economically feasible to use either direct assignment or cause-and-effect, the Standard states that costs should be assigned to outputs using cost allocation. When using cost allocation, the Standard states that costs with similar characteristics should be allocated to outputs based on a relevant common denominator, such as the number of employees, the square footage of office space, or the amount of direct costs.

DoD Financial Regulation. DoD 7000.14-R, "DoD Financial Management Regulation," volumes 1 through 15, provide policy, regulations, and procedures to DoD Components within USD(C/CFO) area of responsibility. Volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," November 2000 states that DoD Components responsible for incurring obligations, with the assistance from supporting accounting offices, shall review commitment and obligation transactions for accuracy, completeness, and timeliness three times each fiscal year. Volume 3, chapter 15, "Receipt and Use of Budgetary Resources," December 1996 states that an earned reimbursement is the amount recognized when a performing organization renders actual or constructive performance on a reimbursable order, which is generally the point of recognition of an accrued expenditure. The Regulation defines accrued expenditures as credits entered into budgetary accounts to recognize paid or unpaid liabilities for services performed, property received, and annuities or insurance claims for which no current service is required. Volume 11A, "Reimbursable Operations, Policy and Procedures," September 1997 provides guidance on the types of costs that DoD Components should recoup when they perform work or sell property. It states that DoD Components should bill requesting DoD Components, other Government agencies, and private parties for earned reimbursements, including direct and overhead costs. Reimbursements from private parties are to include both funded and unfunded costs, and DoD Components are required to deposit receipts of unfunded costs into the General Fund of the U.S. Treasury as miscellaneous receipts.

Bills to Satellite Exporters

From FY 1999 through FY 2002, DTRA accounting records showed that the Space Directorate expended about $12.2 million for monitoring launches of satellites and related items, but DTRA and the Space Directorate did not properly bill satellite exporters for monitoring services.

- Bills exceeded recorded accrued expenditures by nearly $2.1 million.
- Indirect accrued expenditures of more than $900,000 should have been allocated to other Space Directorate activities for the period FY 2000 through FY 2002.
- Indirect accrued expenditures did not match supporting documentation for the period FY 2000 through FY 2002.
- Satellite exporters were undercharged by about $430,000 because required fringe benefit rates published by USD(C/CFO) were not used to bill satellite exporters.
- Travel costs, the only costs billed directly to satellite exporters, did not always match supporting documentation.

The net effect of these improper billings is that the Space Directorate may have overcharged satellite exporters nearly $2.6 million.

Bills Exceeding Adjusted Accrued Expenditures. For the period FY 1999 through FY 2002, DTRA and the Space Directorate billed nearly $2.1 million more to satellite exporters than the accrued expenditures recorded in the DTRA accounting system as of January 2004. Specifically, while DTRA and the Space Directorate billed satellite exporters $14.2 million from FY 1999 through FY 2002, the accrued expenditures in the accounting system only totaled about $12.2 million for the same period. Details are in Table 1.

Table 1. Schedule of Billed and Recorded Accrued Expenditures

Fiscal Year	Amount Billed to Satellite Exporters	Accrued Expenditures in DTRA Accounting System	**Difference**
FY 1999	$ 1,600,000.02	$ 1,324,628.44	**$ 275,371.58**
FY 2000	3,207,104.97	3,501,752.34	**(294,647.37)**
FY 2001	4,295,765.83	3,292,619.09	**1,003,146.74**
FY 2002	5,121,131.80	4,044,313.25	**1,076,818.55**
Total	**$14,224,002.62**	**$12,163,313.12**	**$2,060,689.50**

One reason billings did not match accounting records is that DTRA and the Space Directorate based billings on obligated funds, rather than on accrued expenditures. However, that does not account for the entire difference because as of January 2004, DTRA reported $12.8 million in obligated funds for the Space Directorate—$1.4 million less than the amount billed. DTRA accounting officials did not explain the difference between the billings and the obligations. However, Space Directorate officials stated that they believe the billing discrepancies were the result of obligated funds that had been adjusted subsequent to the billings.

Indirect Accrued Expenditures. More than $900,000 of indirect accrued expenditures should have been allocated to other Space Directorate activities. According to Federal Accounting Standards, indirect costs incurred by the Space Directorate should be allocated between all of the Directorate's activities. For the period FY 2000 through FY 2002,[6] the Space Directorate spent more than $9.2 million on indirect costs. Of that amount, the Space Directorate should have allocated about $8.3 million to satellite export monitoring, with the remaining more than $900,000 allocated to other Space Directorate activities. The calculation of the indirect costs that should have been allocated to the satellite export monitoring is in Appendix B. The Space Directorate charged all indirect accrued expenditures to satellite exporters. No indirect accrued expenditures were allocated to the review of applications for space-related export licenses or to the Missile Defense Agency for assistance related to a joint U.S.-Russia research and development project on observing the earth's atmosphere and observing ballistic missile launches. Categories of indirect accrued expenditures include civilian labor and fringe benefits, contracted services, equipment, leases,

[6] The Space Directorate did not provide the FY 1999 automated spreadsheets used to bill satellite exporters for direct travel costs and to determine the percentage of indirect costs that should have been allocated to each satellite exporter. Therefore, we were unable to evaluate indirect accrued expenditures for FY 1999.

maintenance and storage, permanent change of station costs, recruitment, reimbursements to other Federal agencies, supplies and materials, and travel that exceeded the amount of travel expenses billed directly to satellite exporters. Appendix C further identifies and discusses the categories of accrued expenditures. A final determination cannot be made for the amount of indirect costs that the Space Directorate should allocate to satellite export monitoring until the Space Directorate and DTRA review their records and reconcile any discrepancies.

Cost Allocation Rate. The Space Directorate allocated all indirect accrued expenditures to the monitoring of satellite exports. However, for FY 2000 and FY 2001, we estimate that 91.4 percent should have been allocated to that activity, and for FY 2002, 87.9 percent should have been allocated to that activity.[7] Space Directorate officials stated that they used staff time as the common denominator to allocate indirect costs to outputs. The Space Directorate recorded staff time of 21,615 staff hours in FY 2000; 21,291 staff hours in FY 2001; and 25,434 staff hours in FY 2002, all of which were associated with monitoring satellite exports. The denominator, however, excluded the amount of time Space Directorate staff spent assisting the Missile Defense Agency and reviewing applications for space-related export licenses. In FY 2002, Space Directorate staff spent 1,474 hours assisting the Missile Defense Agency.

The hours that the Space Directorate spent reviewing applications for space-related export licenses can only be estimated because the directorate did not have complete records on the amount of time spent reviewing applications. For FY 2002, the Space Directorate performed a study on the time required to review each application. According to briefing charts that summarized the study, the Space Directorate staff took .965 hours to review each application. Also, Space Directorate records show that its staff reviewed a total of 6,273 applications from FY 2000 through FY 2002[8]—2,104 in FY 2000; 2,084 in FY 2001; and 2,085 in FY 2002. By multiplying .965 hours per application by the total number of applications, we determined that Space Directorate staff took an estimated 2,030 hours in FY 2000; 2,011 hours in FY 2001; and 2,012 hours in FY 2002 to review the applications.

Because both the assistance provided to the Missile Defense Agency and the review of applications for export licenses were Space Directorate outputs, indirect costs should have been allocated to those activities, as well as to the monitoring of space-related exports. If the Space Directorate had included staff hours for all outputs in the denominator in FY 2002, the Space Directorate would have allocated 5.1 percent of its indirect costs to assistance provided to the Missile Defense Agency. Also, the Space Directorate would have allocated an estimated 8.6 percent of its indirect costs in FY 2000 to the review of applications for space-related export licenses, 8.6 percent in FY 2001, and 7 percent in FY 2002. Table 2 details the calculations.

[7] We estimated the allocation percentages by dividing the number of hours spent monitoring satellite exports by the total hours spent assisting the Missile Defense Agency, reviewing applications for space-related export licenses, and monitoring satellite exports.

[8] Space Directorate records show that 7,398 applications were reviewed between FY 1999 and FY 2002.

Table 2. Calculation of Allocation Rate for Satellite Export Monitoring

	FY 2000	FY 2001	FY 2002
Recorded Hours to Monitor Satellite Exports	21,615	21,291	25,434
PLUS: Hours to Assist the Missile Defense Agency			1,474
PLUS: Hours to Review Export License Applications	2,030	2,011	2,012
Total Hours	**23,645**	**23,302**	**28,920**
Hours to Monitor Satellite Exports Divided By Total Hours	**91.4%**	**91.4%**	**87.9%**
Hours to Assist the Missile Defense Agency Divided by Total Hours	**0.0%**	**0.0%**	**5.1%**
Hours to Review Export License Applications Divided by Total Hours	**8.6%**	**8.6%**	**7.0%**

Support for Indirect Accrued Expenditures. Accounting records did not always support recorded indirect accrued expenditures. Errors included differences of more than $645,000 between accrued expenditures and obligations on prior year accounts and differences of $159,500 between accrued expenditures and obligations with supporting documents for office space lease. While few of the prior year accounts had differences between recorded accrued expenditures and obligations, the differences identified were significant. Of the $645,000 in differences, $606,000 occurred on two accounts—contracted services and reimbursements to other Federal agencies. For the prior year accounts with differences between accrued expenditures and obligations, DTRA and the Space Directorate need to determine the validity of the obligation amount that exceeds accrued expenditures. Any excess funds should be deobligated and returned to the satellite exporters. The tables in Appendix C provide differences between accrued expenditures and amounts billed for each account for the period FY 1999 through FY 2002.

Contracted Services. While obligated funds for contracted services totaled almost $988,000 between FY 1999 and FY 2002, accrued expenditures totaled $748,000—a difference of more than $239,000. The contract with the most significant difference was contract DTRA01-01-C-0044 that was to provide information technology support to all DTRA components. While DTRA obligated about $197,000 for that contract in FY 2001, no accrued expenditures (or disbursements) were recorded against the contract as of January 2004.

As of April 2004, officials in the Resource Management Directorate, DTRA did not provide an explanation for why there were no accrued expenditures for the contract.

Reimbursements to Other Federal Agencies. While obligated funds for reimbursements to other Federal agencies totaled almost $1.7 million between FY 1999 and FY 2002, accrued expenditures totaled more than $1.3 million—a difference of about $367,000. Space Directorate officials stated that the account was used to charge for military personnel assigned to the directorate. The most significant difference, almost $334,000, occurred in FY 2001 when DTRA recorded obligations totaling about $334,000 for reimbursements to other Federal agencies; but as of January 2003, DTRA had not recorded any accrued expenditures or disbursements for that account. According to DTRA manning documents, in FY 2001, three military personnel were assigned to the Space Directorate. According to Space Directorate officials, two Air Force majors supported the satellite export monitoring function. The third position, an Air Force sergeant, performed work associated with export licenses, and that position was not charged to satellite exporters. DTRA should have billed the Space Directorate for the two Air Force majors based on composite rates posted by USD(C/CFO). For FY 2001, the rate for each major was almost $110,000. Therefore, for FY 2001, DTRA should have billed the Space Directorate about $220,000 for military personnel.

Office Lease. Accrued expenditures for office space leased for the Space Directorate did not match the lease documents. The lease documents show that DTRA should have billed an additional $159,500 to the Space Directorate for office space from FY 2000 through FY 2002. In FY 2000, DTRA billed lease costs of about $148,900 to the Space Directorate, while lease documents supported costs of about $146,700—an overbilling of $2,200. In FY 2001, DTRA billed lease costs of about $156,600 to the Space Directorate, while lease documents supported about $147,900—an underbilling of $8,700. For FY 2002, DTRA did not bill lease costs to the Space Directorate although the lease documents support costs of about $170,400 for office space. DTRA accounting officials agreed that lease costs should have been charged to Space Directorate accounts in FY 2002 and stated that they would obtain the documentation needed in order to bill the Space Directorate.

Civilian Fringe Benefits. The Space Directorate undercharged for civilian fringe benefits by over $430,000 from FY 2000 through FY 2002 because it did not use the fringe benefit rates determined by USD(C/CFO) when billing satellite exporters. In addition, the Space Directorate undercharged up to $13,500 for civilian fringe benefits in FY 1999. That figure is estimated because the Space Directorate did not provide data on how it allocated accrued expenditures between the Space Directorate activities for FY 1999.[9] Also, the Space Directorate should have deposited approximately $454,000 of fringe benefits that it should have collected for FY 2000 through FY 2002 into the U.S. Treasury as miscellaneous receipts. The Space Directorate billed fringe benefits based on the

[9] We estimated the amount the Space Directorate undercharged in FY 1999 by multiplying accrued expenditures for labor by the USD(C/CFO) fringe benefit rate and subtracting accrued expenditures for fringe benefits.

amount of fringe benefits that were charged to Space Directorate accounts, which totaled more than $1.3 million from FY 1999 through FY 2002. Those benefits included health and life insurance, retirement plan contributions, social security, and Medicare. According to the DoD Financial Management Regulation, civilian fringe benefits should be reimbursed at rates determined annually by USD(C/CFO). For most Defense agencies, including DTRA, the fringe benefit rates were 41 percent of labor costs in FY 1999, 34.7 percent in FY 2000, 36.7 percent in FY 2001, and 33.5 percent in FY 2002. Those rates include unfunded costs for civilian retirement, post retirement health benefits, and post retirement life insurance. The unfunded portion of fringe benefit rates was 9.6 percent of labor costs in FY 2000, 9.6 percent in FY 2001, and 8.4 percent in FY 2002. DoD Components are required to deposit reimbursed amounts into the U.S. Treasury as miscellaneous receipts. The calculation of additional fringe benefits that the Space Directorate should have charged to satellite exporters and the unfunded fringe benefits for FY 2000 through FY 2002 are in Table 3.

Table 3. Calculation of Additional Fringe Benefits and Unfunded Fringe Benefits

	FY 2000	FY 2001	FY 2002	Total
Labor	$1,361,568.67	$1,919,479.87	$2,248,576.40	$5,529,624.94
Allocation Rate (Table 2)	91.4%	91.4%	87.9%	
Labor Multiplied By Allocation Rate	$1,244,473.76	$1,754,404.60	$1,976,498.66	$4,975,377.02
DoD Fringe Benefit Rate	34.7%	36.7%	33.5%	
Allocated Labor Multiplied by Fringe Benefit Rate	$431,832.40	$643,866.49	$662,127.05	$1,737,825.93
Less: Fringe Benefits in Accounting Records	305,197.91	455,561.42	546,841.89	1,307,601.22
Additional Fringe Benefits	**$126,634.49**	**$188,305.07**	**$115,285.16**	**$430,224.71**
Unfunded Fringe Benefit Rate	9.6%	9.6%	8.4%	
Allocated Labor Multiplied by Unfunded Fringe Benefit Rate	**$119,469.48**	**$168,422.84**	**$166,025.89**	**$453,918.21**

Direct Costs Billed to Exporters. For FY 2000 through FY 2002,[10] the Space Directorate did not accurately bill travel costs, which totaled about $1.6 million. Those costs, which the Space Directorate tracked on automated spreadsheets, were the only direct costs billed to satellite exporters. We compared 102 travel vouchers with entries in the automated spreadsheets and identified discrepancies of over $16,800 in overcharges and about $150 in undercharges to exporters. In addition, procedures were not in place to allocate travel costs between satellite exporters. Also, between FY 1999 and FY 2002, the DTRA accounting system reported about $1.7 million of accrued expenditures for travel, which was about $63,000 more than the Space Directorate had recorded in its automated spreadsheets for billing satellite exporters and the Missile Defense Agency.

Travel Voucher Support. For FY 2000 through FY 2002, travel vouchers did not fully support the travel costs billed to satellite exporters. For the three largest exporters, Space Directorate spreadsheets contained 526 entries for the period of FY 2000 through FY 2002. Of the 185 entries we judgmentally selected, the Space Directorate did not have 83 travel vouchers available.[11] Of the remaining 102 entries, the recorded costs for 7 entries did not agree with the costs shown on the travel vouchers by at least $25. Discrepancies of over $16,800 exceeded the amounts listed on the paid travel vouchers, and discrepancies of about $150 were for less than the amounts listed on the paid travel vouchers. The overcharges ranged from nearly $96 to $7,749 and consisted of duplicate travel charges and charges that did not match travel vouchers. The undercharge of about $150 consisted of a charge that did not match the travel voucher. The overcharges and undercharges are detailed in Appendix D.

Allocation of Travel Expenses. The Space Directorate did not have procedures for allocating travel costs between satellite exporters when single trips involved multiple exporters. Instead of prorating travel expenses among the exporters on an equitable basis, the Space Directorate arbitrarily chose the company that should be billed. For example, a November 2001 trip involved three exporters. Costs for the train, taxi fares, and hotel taxes were assigned to one exporter. Hotel costs and per diem for three and a half days were split between that exporter and a second exporter. The third exporter was charged for only a half-day's per diem. Because the Space Directorate was providing monitoring support to all three exporters, the costs of the train and taxi fares should have been evenly divided between them. The allocation of hotel, hotel tax, and per diem costs should have been based on the number of monitoring days required by each exporter. The allocation made by the Space Directorate resulted in the first exporter being overcharged by about $408, the second exporter being undercharged by about $329, and the third exporter being undercharged by about $86. To ensure that satellite exporters are charged for their fair share of

[10] For FY 1999, the Space Directorate did not have supporting documentation available for travel costs billed to satellite exporters.

[11] Between the issuance of the draft report and the final report, the Space Directorate provided 42 of the missing travel vouchers. We did not review the missing travel vouchers for accuracy. Space Directorate officials stated that they did not have the remaining 41 travel vouchers because Space Directorate employees did not always provide copies of the paid travel vouchers to the person who maintained the spreadsheet.

costs, the Space Directorate needs to develop a reasonable basis for allocating costs when travel involves multiple satellite exporters.

Differences Between the Accounting System and Spreadsheets. While the DTRA accounting system reported about $1.7 million of accrued expenditures for travel from FY 2000 through FY 2002, the automated spreadsheets maintained by the Space Directorate totaled only about $1.6 million in travel costs. The difference of almost $63,000 may be indicative of the errors in the accounting system and the spreadsheets. Although the entries on the spreadsheets should have agreed with the entries in the accounting system, there were differences of at least $25 on 9 of the 17 entries we selected for comparison. The differences between the spreadsheets and the accounting system for the nine entries are detailed in Appendix E. For example, DTRA recorded travel expenses of $110 in the accounting system for a FY 2001 trip, while the Space Directorate recorded travel costs of $4,860 on its automated spreadsheet for the same trip. In a second instance, DTRA reported accrued expenditures for travel based on the amount shown on the travel authorization; however, DTRA did not remove the accrued expenditure from its accounting system when the trip was canceled. Because of the differences between amounts reported in the accounting system and the automated spreadsheets, DTRA and the Space Directorate need to thoroughly review the entries in the accounting system and automated spreadsheets before the proper amount of travel expenses associated with monitoring satellite launches can be determined.

Management Action Taken. In FY 2004, the Space Directorate implemented additional procedures for tracking travel expenses and travel time related to satellite monitoring. Specifically, the Space Directorate requires its Operations Division to obtain a copy of a paid travel voucher from each traveler within 30 days of a travel claim and compare the travel costs recorded in the automated spreadsheets with summary amounts. In addition, the Chief, Operations Division is required to conduct periodic reviews of the Space Directorate's spreadsheets to ensure their accuracy.

Procedures for Billing Satellite Exporters

The improper billings occurred because the Space Directorate did not have adequate procedures for adjusting estimates to actual costs, because DoD made a policy decision to bill satellite exporters for the cost of reviewing applications for spacecraft systems and associated equipment, and because the Space Directorate did not evaluate or reconcile accounting information.

Adjusting Estimates to Actual Costs. The Space Directorate did not have adequate procedures for adjusting estimates to actual expenditures at the end of each fiscal year. There may have been errors with the query used by DTRA accounting staff to determine year-end obligations. DTRA and the Space Directorate used obligations as a basis for year-end billings to satellite exporters instead of using accrued expenditures.

Obtaining Obligation Amounts From Accounting System. The queries used by DTRA accounting staff to determine year-end obligations may have contained errors. Although DTRA and the Space Directorate billed $14.2 million between FY 1999 and FY 2002, data provided to us by DTRA accounting staff showed obligations totaling more than $12.8 million for that period—a difference of $1.4 million. Although the DTRA accounting office did not provide requested details of the queries, a Space Directorate official stated that he believed that the queries only provided information on current year obligations. Thus, the queries excluded changes made to prior year obligations, such as the deobligation of unused funds, which would account for the difference between the billing amounts and obligations reported to us in January 2004.

Use of Year-End Obligations. Although the DoD Financial Management Regulation requires DoD Components to use accrued expenditures to bill for their services, DTRA and the Space Directorate used the amount of funds obligated as a basis for year-end adjustments. Space Directorate officials stated that they based year-end billings on recorded obligations because the Space Directorate expected to incur more costs on the outstanding obligations. The officials stated that had they used accrued expenditures, they would have had to deobligate funds in order to refund satellite exporters. As such, they would have needed to obtain alternative funding sources to pay those obligations. Space Directorate officials also stated that they expected that most obligations would match accrued expenditures by the time bills were sent to exporters in January, following the close of the fiscal year. However, they also stated that the Space Directorate was not provided sufficient information to compare obligations and accrued expenditures to close out the fiscal year.

Assigning Expenses to Space Directorate Activities. According to the Director, Space Directorate, DoD made a policy decision, within its management authority, to include the costs of reviewing applications for space-related export licenses as a general overhead cost. He provided briefing charts used by the then-Deputy Under Secretary of Defense for Technology Security Policy to brief the Deputy Secretary of Defense in mid-1999. Those charts indicate that export license reviews and safeguards would be consolidated into one DTRA office that would provide "cradle to grave" support. The Director, Space Directorate also stated that the cost allocation process was extensively discussed within DTRA and included conversations with a staff member from the General Accounting Office who reviewed the monitoring program as it was being stood up and briefings to the Director and Deputy Director, DTRA. The Director, Space Directorate provided charts of a December 1999 briefing to the Director, DTRA. The charts state that the monitoring staff would review license applications but does not identify cost allocation processes. In conclusion, the Director, Space Directorate stated that he was under the impression that the Office of the Under Secretary of Defense for Policy agreed that the decision to include the costs of reviewing applications for space-related export licenses as a general overhead cost was within management's discretionary authority.

While the cost of reviewing applications for space-related export licenses may be part of the Space Directorate's support, the costs are direct costs, not general overhead costs. Public Law 105-261 specifically states that DoD will be reimbursed for the cost of providing monitoring services when a license for the export of a satellite or related items for launch in a foreign country has been approved. Monitoring begins once an export license is granted. In addition, one DTSA function is to review defense-related applications for export licenses, and DTSA receives appropriated funds to perform that function. By charging satellite exporters to review their applications, DTSA is treating satellite exporters differently than other exporters. Additionally, Space Directorate officials stated that satellite exporters pay a registration fee to the Department of State for the U.S. Government to review their export license applications.

Evaluation of Accounting Information. DTRA and the Space Directorate did not have adequate procedures to ensure that the records used to bill satellite exporters were accurate. According to Space Directorate officials, there were no procedures for the Space Directorate to obtain and evaluate the reasonableness of account balances reported in the DTRA accounting system. Had the Space Directorate periodically received the account balances, it could have easily identified that significant costs, such as office leases and reimbursements to other Federal agencies, had not been assigned to the directorate. Also, there were no procedures for the Space Directorate to reconcile travel expenses between amounts recorded in the DTRA accounting system and amounts the directorate reported in its automated spreadsheets. In addition, the Space Directorate did not have written instructions on how to allocate travel expenses when a single trip involved multiple exporters.

Effect of Improper Billings

Based on the limited information we obtained and reviewed, we believe that the Space Directorate may have overcharged satellite exporters nearly $2.6 million. That amount includes nearly $2.1 million that exceeded accrued expenditures reported in the DTRA accounting system, over $900,000 that the Space Directorate should have allocated for the review of applications for space-related export licenses and for the assistance provided to the Missile Defense Agency, and over $430,000 that the Space Directorate undercharged for fringe benefits. In addition, the Space Directorate overcharged satellite exporters by over $16,800 and undercharged about $150 for direct travel costs; however, because DTRA needs to ensure that it has properly accounted for all costs chargeable to the Space Directorate and the Space Directorate needs to further reconcile travel costs included on its automated spreadsheets with the accounting records and travel vouchers, the final amounts cannot be accurately determined.

Conclusion

In IG DoD Report No. D-2003-070, we reported that DTSA had established an effective monitoring program for activities related to space launches. Specifically, we reported that DTSA had developed policies and procedures for executing its monitoring program, employed adequate technology safeguard personnel, developed a comprehensive training program, and maintained documentation of its monitoring efforts. However, financial management of the monitoring program needs to be improved. The Space Directorate needs to develop procedures that ensure the accuracy of accounting records and queries used to determine the amount of billings and to utilize fringe benefit rates published by USD(C/CFO). Those actions will help ensure the preparation of accurate billings to satellite exporters.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Threat Reduction Agency:

a. Review all prior year unliquidated obligations exceeding accrued expenditures in accounts affecting the Space Directorate, Defense Technology Security Administration and determine if additional accrued expenditures will be charged against the obligations. For any obligation where additional accrued expenditures are expected, the Director, Defense Threat Reduction Agency should obtain the needed support. If no additional accrued expenditures are expected, the Director, Defense Threat Reduction Agency should deobligate the excess funds.

b. Review accounting records related to office lease for FY 2002 and contracted services and reimbursements to other Federal agencies for FY 2001 to determine whether the expenses were included in other accounts or excluded from the accounting system and make any needed adjustments in the accounting system.

c. Coordinate with the Director, Space Directorate, in calculating DoD costs chargeable to satellite exporters for the period FY 1999 through FY 2002. Compare the results against the amounts previously billed and prepare any needed revisions to billings for those years.

d. Deposit unfunded civilian fringe benefits (approximately $454,000 for FY 2000 through FY 2002) in the U.S. Treasury as a miscellaneous receipt.

Management Comments. The Director, Defense Threat Reduction Agency concurred, stating that the agency is working with DTSA to determine final costs for each fiscal year. The Director expects all actions to be complete by September 30, 2004.

2. We recommend that the Director, Defense Technology Security Administration:

a. Establish procedures to:

1. Periodically obtain and review general ledger account balances affecting billings to satellite exporters.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation), who is also the Director, DTSA, concurred. The Deputy Under Secretary stated that beginning in January 2003, DTSA routinely obtained general ledger account balances from the Defense Finance and Accounting Service and reviewed the balances for accuracy. In addition, the Deputy Under Secretary estimated that by July 30, 2004, DTSA would amend its service agreement with the Defense Finance and Accounting Service to require reviews of general ledger account balances at least twice each year.

2. Use expenses recorded in the accounting system as a basis for determining travel expenses for each satellite exporter and to allocate travel costs between satellite exporters when the purpose of the travel involves more than one exporter.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation) concurred. The Deputy Under Secretary stated that beginning in January 2003, DTSA has used the Defense Finance and Accounting Service accounting system to reconcile travel expenses. The Deputy Under Secretary stated that following a review by the Defense Finance and Accounting Service and a certified public accountant, DTSA would incorporate procedures for allocating travel costs into a standard operating procedure. The Deputy Under Secretary expected the procedure to be complete by July 30, 2004.

3. Allocate indirect costs to all Space Directorate functions by including staff time for each of the directorate's functions in the cost allocation process.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation) concurred, stating that on April 2, 2004, DTSA reassigned the technical review of space-related export license applications from the Space Directorate to the Technology Directorate, DTSA. The Deputy Under Secretary stated that by removing the licensing function from the Space Directorate's mission, the monitoring function would be the Space Directorate's only function for allocating costs.

Audit Response. The comments are partially responsive. Although the Deputy Under Secretary took action to remove the licensing function from the Space Directorate's mission, the Deputy Under Secretary did not address how costs associated with providing assistance to the Missile Defense Agency would be allocated. The Space Directorate still needs to allocate costs between the monitoring function and assistance provided to the Missile Defense Agency. In response to the final report, we request that the Deputy Under Secretary address how costs associated with providing assistance to the Missile Defense Agency will be allocated.

4. Obtain assistance from accounting staff at the Defense Finance and Accounting Service in developing cost allocation methods. Those procedures should also require that the accounting staff be notified of changes in Space Directorate activities so the accounting staff can ensure that allocation methods are current.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation) concurred. The Deputy Under Secretary stated that the cost allocation issue was eliminated by removing the licensing function from the Space Directorate's mission. She stated that DTSA would revise its agreement with the Defense Finance and Accounting Service to include a requirement that DTSA notify the Defense Finance and Accounting Service of any changes in the Space Directorate mission.

Audit Response. The comments are partially responsive. Although the Deputy Under Secretary stated that removing the export licensing function from the Space Directorate's mission eliminated the cost allocation issue, she did not address the allocation of indirect costs between the monitoring function and assistance provided to the Missile Defense Agency. Also, the Deputy Under Secretary's response did not address procedures for allocating costs to all Space Directorate functions. In response to the final report, we request that the Deputy Under Secretary identify procedures that will be developed for allocating costs to all Space Directorate functions.

b. Compare travel expense entries on the Space Directorate spreadsheets for FY 1999 through FY 2002 with supporting documentation to ensure the entries are accurate. In addition, the travel expense entries for FY 1999 through FY 2002 should be reconciled against official accounting records.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation) concurred. The Deputy Under Secretary stated that DTSA plans to issue a contract for a certified public accountant to perform a reconciliation of Space Directorate accounting records. The review would cover FY 1999 through FY 2002 and include all travel expenses recorded in the general ledger accounts and on the DTSA spreadsheets. The Deputy Under Secretary expects the review to be completed by July 30, 2004.

c. Coordinate with the Director, Resource Management, Defense Threat Reduction Agency in calculating DoD costs chargeable to satellite exporters for the period FY 1999 through FY 2002.

Management Comments. The Deputy Under Secretary of Defense (Technology Security Policy and Counter Proliferation) concurred. The Deputy Under Secretary stated that she will coordinate the results of the certified public accountant's reconciliation with DTRA by September 3, 2004.

Appendix A. Scope and Methodology

For FY 1999 through FY 2002, we reviewed the Space Directorate costs for licensing satellite exports and monitoring satellite launches in foreign countries. The review included provisions of public laws, DoD regulations and directives, OMB circulars, and Federal Accounting Standards. The documentation reviewed covered July 1993 through March 2004.

We conducted interviews with officials from the Office of the Under Secretary of Defense for Policy; USD(C/CFO); the Resource Management Directorate, DTRA; and the Space Directorate. We also held discussions with representatives from Lockheed Martin Corporation and The Boeing Company.

We evaluated financial management within the Space Directorate over the satellite launch monitoring program. Specifically, we identified the Space Directorate costs for reviewing applications of space-related export licenses and for monitoring satellite launches. We assessed satellite launch monitoring costs to determine if they were accurate, supported, and directly related to the monitoring mission. The review included examinations of the Space Directorate and DTRA accounting records including budgets, financial reports, travel vouchers, personnel records, and invoices. We also evaluated the Space Directorate and DTRA cost accounting methodologies and compared those methodologies with standards issued in the Statement of Federal Financial Accounting Standards No. 4 and the DoD Financial Management Regulation.

We performed the review from December 2003 through April 2004 in accordance with generally accepted government auditing standards. To determine the accuracy and support for direct expenses reported by the Space Directorate, we judgmentally selected transactions from automated spreadsheets maintained by the Directorate. To determine the accuracy and support for indirect expenses reported by DTRA, we judgmentally selected transactions from automated spreadsheets that DTRA officials obtained by querying a database of transactions derived from the agency's accounting system.

Scope Limitation. This review contained scope limitations that materially impacted the results of this review.

- DTSA did not finalize its accounting for FY 2003 costs until April 2004. Therefore, the review only covers FY 1999 through FY 2002.

- The Space Directorate did not provide the FY 1999 automated spreadsheet used to bill satellite exporters for direct travel costs and to determine the percentage of indirect costs that should have been allocated to each satellite exporter.

- DTRA did not provide the details of the accounting system query that was used to provide us with the accounting entries for FY 1999 through FY 2002.

- DTRA was unable to provide supporting documentation for requested accounting entries related to labor, reimbursements to other Federal agencies, and permanent change of station costs.

- We did not verify that the Space Directorate staff took .965 hours to review each application for space-related export licenses, as reported in the briefing charts for the FY 2002 Space Directorate study.

- We did not review the DTSA management control program.

Use of Computer-Processed Data. DTRA maintained Space Directorate accounts from FY 1999 through the beginning of FY 2003 on the agency's Centralized Accounting and Financial Resource Management System. According to officials from the Resource Management Directorate, DTRA, data provided for our review was obtained by querying a database of data transferred from the DTRA accounting system. We did not evaluate the general and application controls over the accounting system, the database, or the queries. An evaluation of the controls over the accounting system and database was outside the scope of our review. We did request details on the queries used to produce the accounting entries given to us, as well as the queries used each year to bill satellite exporters, but the Resource Management Directorate did not provide that information. Although some accounting entries were compared with supporting documentation, and we noted that some expenses were either missing from the system or misclassified, we generally relied on data from the queries. Inadequate controls over the accounting system, transfers to the database, or query development could affect the amounts included in this report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Prior Coverage

During the last 5 years, the IG DoD has issued one report, IG DoD Report No. D-2003-070, "DoD Involvement in Export Enforcement Activities," March 28, 2003, related to the satellite monitoring program.

Appendix B. Allocation of Indirect Costs

Based on the allocation rates and the amount of indirect costs incurred, the Space Directorate should have allocated more than $8.3 million of indirect costs to satellite export monitoring (Table B-2). Between FY 2000 and FY 2002, DTRA accounting records showed that the Space Directorate incurred about $10.8 million of accrued expenditures. Those expenditures included almost $1.6 million of travel costs that the Space Directorate charged directly to satellite exporters and almost $49,000 charged to the Missile Defense Agency. A comparison of the direct charges against travel records maintained by the Space Directorate found that the charges were not always correct. Subtracting the adjusted travel costs from the accrued expenditures left more than $9.2 million of indirect accrued expenditures, including nearly $3.1 million in FY 2000, over $2.8 million in FY 2001, and over $3.3 million FY 2002 (Table B-1).

Table B-1. Schedule of Allocable Accrued Expenditures

	FY 2000	FY 2001	FY 2002	Total
Accrued Expenditures (Tables C-3, C-4, C-5)	$3,501,752.34	$3,292,619.09	$4,044,313.25	$10,838,684.68
LESS: Direct Travel Expenses:				
Direct Charges to Satellite Exporters	$ 452,297.23	$ 472,807.09	$ 656,801.63	$ 1,581,905.95
PLUS: Undercharges	0.00	0.00	149.74	149.74
LESS: Overcharges	6,067.34	0.00	10,744.57	16,811.91
Net Direct Travel for Satellite Exporters	$ 446,229.89	$ 472,807.09	$ 646,206.80	$ 1,565,243.78
PLUS: Travel Charged Directly to Missile Defense Agency			48,854.26	48,854.26
Net Direct Travel Expenses	$ 446,229.89	$ 472,807.09	$ 695,061.06	$ 1,614,098.04
Accrued Expenditures Less Net Direct Travel Expenses	**$3,055,522.45**	**$2,819,812.00**	**$3,349,252.19**	**$ 9,224,586.64**

Multiplying the indirect accrued expenditures by the percentage of indirect accrued expenditures that should be allocated to the monitoring of space-related exports provides the indirect cost that the Space Directorate should charge to that activity. In Table B-2, we calculated 91.4 percent of indirect accrued expenditures for FY 2000, 91.4 percent for FY 2001, and 87.9 percent for FY 2002 that should have been allocated to the monitoring of space-related exports. In total, more than $8.3 million of indirect accrued expenditures should have been allocated to the monitoring function, including about $2.8 million in

FY 2000, about $2.6 million in FY 2001, and over $2.9 million in FY 2002. The difference between the $9.2 million of indirect accrued expenditures and the $8.3 million that was allocated to satellite exporters shows that over $900,000 should have been allocated to other activities of the Space Directorate.

Table B-2. Allocation of Indirect Accrued Expenditures to the Monitoring of Satellite Exports

Fiscal Year	Allocable Indirect Accrued Expenditures	Allocation Percentage	Indirect Accrued Expenditures Allocated to Satellite Exporters	Indirect Accrued Expenditures Allocated to Other Activities
FY 2000	$3,055,522.45	91.4%	$2,792,747.52	$262,774.93
FY 2001	$2,819,812.00	91.4%	$2,577,308.17	$242,503.83
FY 2002	$3,349,252.19	87.9%	$2,943,992.68	$405,259.51
Total	**$9,224,586.64**		**$8,314,048.36**	**$910,538.28**

Appendix C. Space Directorate Costs

DTRA accounting records support about $12.8 million of funded obligations and $12.2 million of accrued expenditures for the Space Directorate as of January 2004. Most of the difference of more than $645,000 occurred in two accounts: contracted services and reimbursements to other Federal agencies. While DTRA and the Space Directorate need to take prompt action to determine whether the obligations or accrued expenditures for those two accounts need to be adjusted, they also need to determine why discrepancies still exist in the other accounts with differences. Those accounts include supplies, permanent change of station, and travel. Table C-1 provides the costs for each account for the entire period. Table C-2 through Table C-5 provide the costs for each fiscal year. A description of each account is provided after Table C-5.

Table C-1. Comparison of Obligations and Accrued Expenditures for FY 1999 Through FY 2002

Account Type	Obligations	Accrued Expenditures	Difference
Labor	$ 5,599,190.46	$ 5,599,190.46	0.00
Awards	119,241.50	119,241.50	0.00
Benefits	1,322,620.53	1,322,620.53	0.00
Recruitment	15,000.00	15,000.00	0.00
Office Lease	344,731.25	344,731.25	0.00
Car Lease	1,250.00	1,250.00	0.00
Maintenance and Storage	6,678.12	6,678.12	0.00
Contracted Services	987,756.26	748,443.18	$239,313.08
Reimbursements to Other Federal Agencies	1,671,583.76	1,304,297.43	367,286.33
Equipment	376,558.68	376,558.68	0.00
Supplies	144,571.43	133,548.37	11,023.06
Permanent Change of Station	444,371.77	440,074.11	4,297.66
PCS-Shipment of Household Goods	58,369.96	58,369.96	0.00
Travel	1,716,811.78	1,693,309.53	23,502.25
Total Obligations	**$12,808,735.50**	**$12,163,313.12**	**$645,422.38**

Table C-2. Comparison of Obligations and Accrued Expenditures for FY 1999

Account Type	Obligations	Accrued Expenditures	Difference
Labor	$ 69,565.52	$ 69,565.52	0.00
Awards	0.00	0.00	0.00
Benefits	15,019.31	15,019.31	0.00
Recruitment	0.00	0.00	0.00
Office Lease	39,331.25	39,331.25	0.00
Car Lease	1,250.00	1,250.00	0.00
Maintenance and Storage	3,145.00	3,145.00	0.00
Contracted Services	325,507.40	325,507.40	0.00
Reimbursements to Other Federal Agencies	536,755.00	511,410.20	$25,344.80
Equipment	241,006.22	241,006.22	0.00
Supplies	5,909.61	5,909.61	0.00
Permanent Change of Station	83,945.95	83,945.95	0.00
PCS-Shipment of Household Goods	7,989.58	7,989.58	0.00
Travel	21,424.88	20,548.40	876.48
Total Obligations	**$1,350,849.72**	**$1,324,628.44**	**$26,221.28**

Table C-3. Comparison of Obligations and Accrued Expenditures for FY 2000

Account Type	Obligations	Accrued Expenditures	Difference
Labor	$1,361,568.67	$1,361,568.67	0.00
Awards	21,893.50	21,893.50	0.00
Benefits	305,197.91	305,197.91	0.00
Recruitment	0.00	0.00	0.00
Office Lease	148,850.00	148,850.00	0.00
Car Lease	0.00	0.00	0.00
Maintenance and Storage	3,533.12	3,533.12	0.00
Contracted Services	233,438.90	233,438.90	0.00
Reimbursements to Other Federal Agencies	472,910.00	472,910.00	0.00
Equipment	118,923.34	118,923.34	0.00
Supplies	100,257.91	100,257.91	0.00
Permanent Change of Station	307,499.24	303,201.58	$4,297.66
PCS-Shipment of Household Goods	50,380.38	50,380.38	0.00
Travel	386,597.03	381,597.03	5,000.00
Total Obligations	**$3,511,050.00**	**$3,501,752.34**	**$9,297.66**

Table C-4. Comparison of Obligations and Accrued Expenditures for FY 2001

Account Type	Obligations	Accrued Expenditures	Difference
Labor	$1,919,479.87	$1,919,479.87	0.00
Awards	47,375.00	47,375.00	0.00
Benefits	455,561.42	455,561.42	0.00
Recruitment	0.00	0.00	0.00
Office Lease	156,550.00	156,550.00	0.00
Car Lease	0.00	0.00	0.00
Maintenance and Storage	0.00	0.00	0.00
Contracted Services	308,794.68	111,895.00	$196,899.68
Reimbursements to Other Federal Agencies	333,566.00	0.00	333,566.00
Equipment	16,629.12	16,629.12	0.00
Supplies	18,403.91	18,403.91	0.00
Permanent Change of Station	43,918.66	43,918.66	0.00
PCS-Shipment of Household Goods	0.00	0.00	0.00
Travel	533,159.61	522,806.11	10,353.50
Total Obligations	**$3,833,438.27**	**$3,292,619.09**	**$540,819.18**

Table C-5. Comparison of Obligations and Accrued Expenditures for FY 2002

Account Type	Obligations	Accrued Expenditures	Difference
Labor	$2,248,576.40	$2,248,576.40	0.00
Awards	49,973.00	49,973.00	0.00
Benefits	546,841.89	546,841.89	0.00
Recruitment	15,000.00	15,000.00	0.00
Office Lease	0.00	0.00	0.00
Car Lease	0.00	0.00	0.00
Maintenance and Storage	0.00	0.00	0.00
Contracted Services	120,015.28	77,601.88	$42,413.40
Reimbursements to Other Federal Agencies	328,352.76	319,977.23	8,375.53
Equipment	0.00	0.00	0.00
Supplies	20,000.00	8,976.94	11,023.06
Permanent Change of Station	9,007.92	9,007.92	0.00
PCS-Shipment of Household Goods	0.00	0.00	0.00
Travel	775,630.26	768,357.99	7,272.27
Total Obligations	**$4,113,397.51**	**$4,044,313.25**	**$69,084.26**

The following describes the costs included in each account.

Labor. Space Directorate officials stated that labor included the salaries of civilian employees assigned to the directorate and, until the Space Directorate separated from DTRA in 2003, included one GS-12 position from the Resource Management Directorate, DTRA. According to a memorandum from an April 6, 2000, meeting, Space Directorate and DTRA Resource Management officials determined that it would not be cost effective to allocate overhead costs and, therefore, determined that charging for one GS-12 position would be an appropriate substitute. From FY 1999 through FY 2002, the Space Directorate averaged 22 civilian staff, including a directorate chief, management analysts, administrative specialists, administrative assistants, engineers, security specialists, intelligence specialists, and secretaries.

Awards. Space Directorate officials stated that awards were for outstanding employee performance.

Benefits. According to the accounting records, benefits included health and life insurance, retirement plan contributions, social security, and Medicare. Benefits related to employee leave were included as labor costs.

Recruitment. Space Directorate officials stated that recruitment costs were for a $15,000 bonus paid to a prospective employee.

Office Lease. Office lease costs were for leased office space in Alexandria, Virginia, for Space Directorate staff. Space Directorate officials stated that DTRA determined that the Space Directorate occupied 6,800 square feet of office space and that DoD leased an average of 42,757 square feet in that building for DTRA between FY 1999 and FY 2002. DTRA allocated lease costs to the Space Directorate as a portion of the total lease expenses for the building.

Car Lease. According to Space Directorate officials, DTRA leased five vehicles for the Technology Security Directorate, DTRA. Space Directorate officials stated that DTRA calculated the Space Directorate's cost for vehicle lease costs based on the portion of Space Directorate staff to Technology Security Directorate staff. The officials stated that staff used the vehicles to attend meetings in the Washington, D.C. area.

Maintenance and Storage. According to Space Directorate officials, maintenance and storage costs included costs for storing household goods for relocated employees.

Contracted Services. Contracted services were for administrative support for the Space Directorate. The administrative support included the scheduling of monitoring activities, coordinating with customers, providing support for tracking monitoring activities, processing travel arrangements when Government employees were absent, preparing briefings and reports, maintaining data bases, and providing advice to improve operations. From FY 1999 through July 2002, Anser Corporation provided the support services. Since August 2002, Delclos/Walsh Associates, Incorporated, and Mega-Tech, Incorporated, have provided the support services.

Reimbursements to Other Government Agencies. Space Directorate officials stated that reimbursements to other Government agencies were for military personnel who performed monitoring services for the Space Directorate. From FY 1999 through FY 2002, the Space Directorate averaged four military staff. Military staff included engineers, program analysts, and administrative specialists.

Equipment, Supplies, and Materials. Space Directorate officials stated that equipment, supplies, and materials were for office furniture, computer equipment, and miscellaneous office supplies.

Permanent Change of Station. According to the accounting records and Space Directorate officials, permanent change of station costs included relocation and travel costs to the Washington, D.C. area for permanent employees. Also, Space Directorate officials stated that it appears that the account included misclassified travel costs.

Travel. Space Directorate officials stated that travel included trips made by directorate personnel and military volunteers to attend technical meetings between U.S. and foreign parties and to monitor satellite launches.

Appendix D. Travel Expenses

Travel Costs Errors. DTSA overcharged satellite exporters for travel expenses by over $16,800 and undercharged satellite exporters for travel expenses by about $150 for FY 2000 and FY 2002 (Table D-3). Those mischarges were due to the inaccurate recording of actual travel expenses into the automated spreadsheets that DTSA maintained. For example, a spreadsheet entry dated December 8, 1999, showed travel expenses of over $5,600; however, that amount was not supported by the travel voucher.* Mischarges also resulted from multiple entries for the same travel, as was identified with a tracking sheet entry dated August 29, 2002, in the amount of nearly $5,800. The following tables indicate errors over $25 that were identified in the review of 102 travel vouchers for FY 2000 through FY 2002. Travel vouchers were not available for 83 entries selected for review.

Table D-1. Unsupported Travel Costs for Fiscal Year 2000

Date	DTSA Spreadsheet	Travel Vouchers	Difference
Overcharges:			
10/17/1999	$ 3,005.96	1,502.98	$1,502.98
12/08/1999	5,622.67	$ 2,410.31	3,212.36
12/18/1999	3,197.91	1,845.91	1,352.00
FY 2000 Overcharges	**$11,826.54**	**$5,759.20**	**$6,067.34**

* Space Directorate officials were unable to explain why there were differences between the DTSA spreadsheet and the travel vouchers.

Table D-2. Unsupported Travel Costs for Fiscal Year 2002

Date	DTSA Spreadsheet	Travel Vouchers	Difference
Undercharges:			
4/15/2002	2,106.80	2,256.54	(149.74)
FY 2002 Undercharges	**$2,106.80**	**$2,256.54**	**$ (149.74)**
Overcharges:			
12/08/2001	4,092.69	3,996.94	95.75
1/14/2002	9,058.59	1,309.59	7,749.00
8/29/2002	5,799.64	2,899.82	2,899.82
FY 2002 Overcharges	**$18,950.92**	**$8,206.35**	**$10,744.57**

Table D-3. Summary of Undercharges and Overcharges for FY 2000 Through FY 2002

Fiscal Year	Undercharges	Overcharges
FY 2000	0.00	$ 6,067.34
FY 2001	0.00	0.00
FY 2002	$149.74	10,744.57
Totals	**$149.74**	**$16,811.91**

Appendix E. Differences Between Space Directorate and Defense Threat Reduction Agency Records

Differences Between Space Directorate Spreadsheet and DTRA Accounting Records. The Space Directorate's records of travel costs did not always match the amounts in the DTRA accounting system. Nine of the 17 travel vouchers we reviewed contained discrepancies of at least $25. The nine discrepancies totaled nearly $8,800. The following table details those differences.

Table E. Differences Between Space Directorate Spreadsheets and DTRA Accounting System

Fiscal Year	Date	Spread Sheet	Accounting System	Difference
FY 2000	10/9/1999	721.02	973.77	(252.75)
	12/8/1999	5,622.67	5,278.42	344.25
Total FY 2000		**$ 6,343.69**	**$ 6,252.19**	**$ 91.50**
FY 2001	12/3/2000	$3,957.08	$5,530.92	$(1,573.84)
	7/29/2001	6,894.13	7,014.70	(120.57)
	8/5/2001	4,860.00	110.00	4,750.00
Total FY 2001		**$15,711.21**	**$12,655.62**	**$3,055.59**
FY 2002	12/9/2001	1,471.17	1,441.17	$ 30.00
	1/14/2002	9,058.59	1,493.01	7,565.58
	3/26/2002	0.00	1,784.68	(1,784.68)
	4/4/2002	7,860.27	8,060.27	(200.00)
Total FY 2002		**$18,390.03**	**$12,779.13**	**$5,610.90**
Total FY 2000 Through FY 2002		**$40,444.93**	**$31,686.94**	**$8,757.99**

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)/Chief Financial Officer
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Policy
  Assistant Secretary of Defense (International Security Policy)
  Deputy Under Secretary of Defense (Technology Security Policy and Counterproliferation)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Threat Reduction Agency
Director, Defense Technology Security Administration

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Foreign Relations
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform
House Committee on International Relations

Under Secretary of Defense for Policy Comments

Final Report Reference

OFFICE OF THE UNDER SECRETARY OF DEFENSE
2000 DEFENSE PENTAGON
WASHINGTON, DC 20301-2000

POLICY

APR 2 3 2004

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT DIRECTORATE, OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: IG Draft Report Project No. D2004LG-0048, "DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches," dated 16 April 2004

We appreciate the changes that were made before publication of the draft report. Some changes appear to be the result of the informal comments we shared following the April 9 meeting. Attached are a few additional comments that we ask be considered before publication of the final report.

Of particular concern is the continuing reference to billing by the Space Directorate. If you are not in agreement that the appropriate change should be to jointly identify the "Space Directorate" and "DTRA/RM," we suggest an alternative at several points, replacing "Space Directorate" with "Space Launch Monitoring Program." Revised Page 4, 6, 7, 13, 14

The DTSA point of contact is Mr. Dave Garner, 703-325-7085, email: david.garner@osd.mil.

Lisa Bronson
Deputy Under Secretary of Defense,
Technology Security Policy and
Counterproliferation

Attachment:
As stated *

*Omitted because report was revised to reflect requested changes.

Final Report Reference

OFFICE OF THE UNDER SECRETARY OF DEFENSE
2000 DEFENSE PENTAGON
WASHINGTON, DC 20301-2000

APR 2 3 2004

POLICY

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT DIRECTORATE, OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: IG Draft Report Project No. D2004LG-0048, "DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches," dated 16 April 2004

The Defense Technology Security Administration concurs in the recommendations of the draft report. Attached are management comments identifying actions that are underway including a detailed chronology and copies of all implementing documentation.

The DTSA point of contact is Mr. Charles Shotwell, 703-695-9386, email: charles.shotwell@osd.mil.

Lisa Bronson
Deputy Under Secretary of Defense,
Technology Security Policy and
Counterproliferation

* Attachments:
As stated

*Omitted because of length. Copies will be provided upon request.

DTSA Management Comments Regarding IG Draft Report "DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches," dated 16 April 2004

Recommendation 2.a. Establish procedures to:

2.a.1. Periodically obtain and review general ledger account balances affecting billings to satellite exporters.

Management Comments: Concur.

- As the IG is aware, after DTSA became solely responsible for management of the space reimbursement account at DTSA's stand-up in January 2003; the Space Directorate routinely obtains and reviews general ledger accounts managed on DTSA's behalf by the Defense Finance and Accounting Service.
- As a future practice, DTSA will seek additional review by DFAS of the space reimbursement account at least twice yearly, including end-of-year reconciliation of receipts and expenses.
- Existing written guidelines will be incorporated into a DTSA standard operating procedure (SOP). This SOP will be reviewed by an outside CPA to ensure transparency and that the guidelines comply with DoD financial management regulations.
- DTSA will amend its service agreement with DFAS to specifically include support to continuing review and reconciliation of the space reimbursement account.

Estimated Completion Date: 30 July 2004

Recommendation 2.a.2. Use expenses recorded in the accounting system as a basis for determining travel expenses for each satellite exporter and to allocate travel costs between satellite exporters when the purpose of travel involves more than one exporter.

Management Comments: Concur.

- DTSA has used all expenses in the DFAS accounting system as the basis for reconciliation of the FY 2003 space reimbursement account. After its re-establishment as a DoD Field Activity in January, 2003, maintaining a separate account of travel expenses became superfluous.
- Written procedures for allocating travel costs to more than one exporter were provided to the IG during its review. Those procedures will be incorporated into a DTSA SOP referenced in our reply to recommendation one above.
- The procedure will be reviewed by DFAS and the outside CPA.

Estimated Completion Date: 30 July 2004

1

Final Report Reference

Recommendation 2.a.3. Allocate indirect costs to all Space Launch Monitoring Directorate functions by including staff time for each of the directorate's functions in the cost allocation process.

__Management Comments:__ Concur.

- The report identifies two functions of the Space Directorate: monitoring and license review. The function which the IG identifies as most closely aligned with appropriate funding is no longer in the Space Directorate's mission, leaving only the monitoring activity identified as "reimbursable" in PL 105-261.
- Prior to publication of the draft IG report, on April 2, 2003, DTSA reassigned the technical review of satellite and launch vehicle license review from the Space Directorate to the Technology Directorate. Two currently vacant FTE positions were restructured to use appropriated funds to accomplish the license review. One position was immediately filled by the transfer of one senior engineer from the Space Directorate to the Technology Directorate. The second position is being filled through a current recruiting action.

April 2, 2004

__Estimated Completion Date:__ Complete

__Recommendation 2.a.4.__ Obtain assistance from accounting staff at the Defense Finance and Accounting Service in developing procedures for cost allocation. Those procedures should also require that the accounting staff be notified of changes in Space Launch Monitoring Directorate activities so the accounting staff can ensure that allocation methods are current.

__Management Comments:__ Concur.

- While removal of the second mission of conducting technical review of licenses eliminates the cost allocation issue, DTSA will include in a revision of its agreement with DFAS a requirement that DFAS be notified of any future changes to the space reimbursement program's mission, in order that rigorous cost allocation be maintained.

__Estimated Completion Date:__ 30 July 2004

__Recommendation__ 2.b. Compare travel expense entries on the Space Launch Monitoring Directorate spreadsheets for 1999 through 2002 with supporting documentation to ensure the entries are accurate. In addition, the travel expense entries for FY 1999 through FY 2002 should be reconciled against official accounting records.

Management Comments: Concur.

- With the consent, advice and cooperation of the OSD(C), DoD (IG), and DCAA, DTSA is contracting for an outside CPA to conduct reconciliation of DTSA records from FY 1999 – FY 2002.

2

Final Report
Reference

- The outside CPA review of all travel identified in the general ledger accounts at DTRA and DTSA's internal spreadsheets which recorded the space directorate's travel from FY 1999 – FY 2002.
- The outside CPA contract will be funded through DTSA appropriated funds.
- The work of the outside CPA will be verified as meeting DoD Financial Management standards by DCAA.

Estimated Completion Date: 30 July 2004

Recommendation 2.c. Coordinate with the Director, Resource Management, Defense Threat Reduction Agency in calculating DoD costs chargeable to satellite exporters for the period FY 1999 through FY 2002.

Management Comments: Concur.

- The results of the activity in 2.b. above will be coordinated with DTRA/RM to ensure DTRA can complete the additional billing or refund to exporters envisioned in the IG's recommendation to DTSA numbered as 1.d.

Estimated Completion Date: 3 Sept 2004

Attachment:
Detailed Chronology with Copies of all Implementing Documentation *

3

*Omitted because of length. Copies will be provided upon request.

Defense Threat Reduction Agency Comments

Defense Threat Reduction Agency
8725 John J. Kingman Road MSC 6201
Ft Belvoir, VA 22060-6201

MAY 3 2004

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Report on Department of Defense (DoD) Costs of Licensing Space-Related Exports and Monitoring Satellite Launches (Project No. D2004LG-0048)

In accordance with DoD Directive 7650.3, we are providing comments on the subject audit report.

We concur with the recommendations addressed to the Defense Threat Reduction Agency (DTRA). The Agency has been working on these recommendations and assisting the Defense Technology Security Administration in final determinations of costs for each fiscal year.

The estimated completion date for implementation of all recommendations addressed to DTRA is September 30, 2004. Should you require additional information on this matter, please contact Ms. Wanda Smith at 703-767-4651.

Trudy H Clark

TRUDY H. CLARK
Maj Gen, USAF
Acting Director

Team Members

The Readiness and Logistics Support Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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